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TOP SECRET

SUMMARY**SOVIET UNION**

1. Moscow embassy comments on Beria ouster (page 3).

SOUTHEAST ASIA

2. Prospects good for early formation of Indonesian cabinet (page 4).

SOUTH ASIA

3. Pakistan reportedly plans to ease relations with Afghanistan (page 4).

NEAR EAST - AFRICA

4. Turkish company reportedly signs oil contract with Iran (page 5).
5. Comment on Egyptian situation (page 5).
6. Villard comments on possible failure of Anglo-Libyan negotiations (page 6).

EASTERN EUROPE

7. Comment on Rakosi's speech defining Hungarian policies (page 6).
8. Czechoslovak and Rumanian leaders rumored to be in Moscow (page 7).

WESTERN EUROPE

9. General strike reportedly planned to enforce East German demands (page 8).

* * * *

25X1A


- 2 -

25X1A

SOVIET UNION

1. Moscow embassy comments on Beria ouster:

25X1A

 American embassy officials in Moscow consider that Beria's removal, while it shows a weakness in the regime, strengthens Malenkov's position and indicates that he had complete control of the party. Through the appointment of Kruglov as MVD minister, Malenkov may now have gained a similar position with respect to the police. The embassy does not consider that Molotov or Defense Minister Bulganin is at present likely to challenge Malenkov.

The embassy adds that during the past 24 hours, aside from one completely unconfirmed rumor of Zhukov's arrest, there is no sign of trouble from the military nor any indication that Bulganin is contending for supreme power.

The embassy sees the continuing emphasis by the regime on collective action as indicative of top-level agreement on Beria's arrest. Malenkov will probably continue this emphasis in order to share the burden of governmental responsibilities and to take advantage of this policy's popular appeal.

The embassy feels that the promotion of Kruglov, who was for many years Beria's deputy, raises doubt as to the number of Beria proteges in the police who would necessarily be purged.

Comment: The accusation that Beria had been selecting MVD personnel on the basis of loyalty to himself suggests that a purge of some size, at least within the MVD, will be publicized.

It is unlikely that the army will play more than a neutral role in the power struggle unless it becomes intensified to a point where one faction must depend directly on military power. Such dependence on the army would facilitate a coup by the military over the political leaders -- an eventuality which has been carefully guarded against for 35 years by permeating the military with police and party controls.

SOUTHEAST ASIA

2. Prospects good for early formation of Indonesian cabinet:

25X1A



The American embassy in Djakarta believes that prospects are good for the formation of an Indonesian cabinet by 15 July. Although efforts to achieve a National Party-Masjumi coalition may be unsuccessful, a right-of-center Masjumi-led government, excluding the Nationalists but commanding 130 of the parliament's 212 seats, is entirely possible.

Comment: The last cabinet, a National Party-Masjumi coalition, fell on 3 June. The embassy has predicted that a new government excluding the National Party would have a short and stormy existence, and that despite basic differences between the country's two largest parties, another National Party-Masjumi coalition would have a better chance to survive until the 1954 elections.

SOUTH ASIA

3. Pakistan reportedly plans to ease relations with Afghanistan:

25X1A



Subject to confirmation by the cabinet, the Pakistani government has decided to ease its relations with the Afghan government in "every practicable manner," according to the Pakistani ambassador in Kabul. If this decision is confirmed by the cabinet, Pakistan will withdraw many trade restrictions on Afghanistan, permit the re-export of Pakistani imports, such as iron and steel, and considerably increase port and transportation facilities for Afghan transit trade through Karachi.

Comment: Such an independent, concrete move toward friendlier relations would face the Afghan government with the decision of diminishing its anti-Pakistan propaganda campaign or of subjecting itself to widespread criticism.

If formally announced before the meeting between the Indian and Pakistani prime ministers on 25 July, the new policy toward Afghanistan could be used by Pakistan, if necessary, to place the onus on India for failure of those talks.

25X1A

- 4 -



NEAR EAST - AFRICA

4. Turkish company reportedly signs oil contract with Iran:

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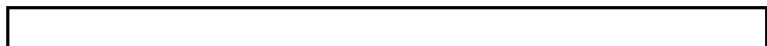
On 11 June a private Turkish company signed a contract with Iran involving the exchange of Turkish goods for 4,150,000 metric tons of crude oil and oil products during the next five

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25X1

25X1

 The products reportedly will include aviation and regular gasoline, kerosene and diesel oil.



25X1

the transaction could save Turkey about \$300,000,000 in exchange and open an important outlet for Turkish surpluses.

25X1

5. Comment on Egyptian situation:

Egypt's rejection of a British ultimatum for the return of a RAF airman, allegedly kidnaped in Ismailia on 9 July, and the consequent British occupation of the town to establish controls over all movements have created new tensions in the Anglo-Egyptian dispute. This action could set off widespread guerrilla attacks against the British.

The ultimatum was issued by the British commander in the Suez area, and Britain appears to be prepared to risk the consequences to implement its present firm policy toward Egypt.

The Egyptian military regime may be expected to remain obdurate in its refusal to accept the British ultimatum. It will use this incident as added evidence that the mere presence of British

25X1A



troops is a threat to Egyptian independence. Unless impelled by popular sentiment, the regime will continue for the present to maintain public order and to look for a Washington-inspired solution to the Suez issue.

This flare-up will make more difficult a resumption of the suspended Anglo-Egyptian talks, and coming during the Washington conference, it highlights once again the seriousness of the situation and the need for a settlement.

6. Villard comments on possible failure of Anglo-Libyan negotiations:

25X1A

American minister Villard in Tripoli reports that the rapidly growing anti-British attitude of the Libyan king, cabinet and parliament may block a treaty with Britain.

Villard comments that if the current Anglo-Libyan negotiations for a military agreement fail and British forces are barred from Libyan soil, the United States may be faced with full responsibility for the welfare and continuance of the Libyan state as well as the defense of the entire territory.

Comment: Despite Prime Minister Muntasser's initial optimism in early June that the agreement with Britain could be concluded in London within ten days, no progress has been reported after a month of negotiation.

Even if a treaty were signed, the attempt at ratification would face further problems in view of the reported Egyptian activity among members of the Libyan parliament.

EASTERN EUROPE

7. Comment on Rakosi's speech defining Hungarian policies:

Hungarian party leader Rakosi's speech on 11 July probably was aimed at clarifying the new governmental program for party members who had been confused by Premier Nagy's address

- 6 -

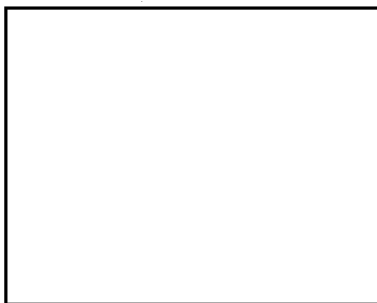
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of 4 July outlining a more relaxed policy. While the speech was in substantial agreement with that of Nagy, it stated the limits of the concessions, pointing out that the goal was still socialism and that a return to capitalism would not be allowed.

The show of party unity in connection with the speech, as evidenced by the appearance of several leaders who had been demoted from the politburo or the cabinet, was probably planned to offset the confusion of the party rank and file over the suddenness of the recent personnel and policy changes.

8. Czechoslovak and Rumanian leaders rumored to be in Moscow:

25X1A



Czechoslovak president Zapotocky and Rumanian premier Gheorghiu-Dej are rumored to be in Moscow, according to the American diplomatic missions in Prague and Bucharest. Czech deputy prime minister Dolansky and minister of national defense Cepicka accompanied Zapotocky, according to rumors circulating in Prague. The Ameri-

can legation in Bucharest reported on 12 July that Georghiu-Dej had been absent from his house for two weeks, and that

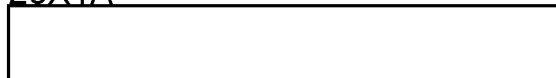
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the premier left Rumania for Moscow on 3 July.

25X1

Comment: These Satellite leaders may have been summoned to Moscow to receive instructions on the implementation of the current "liberal" Orbit policy in their respective countries and to be briefed on the Beria purge. Both Zapotocky and Gheorghiu-Dej have been proponents of all-out industrialization programs at the expense of labor.

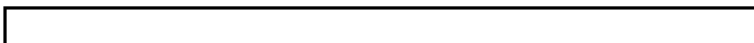
The ministerial reorganization and liberalization policy announced in Hungary on 4 July followed the return from Moscow on 19 June of party leader Rakosi and then minister of war Farkas.



WESTERN EUROPE


9. General strike reportedly planned to enforce East German demands:

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 plans have been made for a general strike in mid-July. Reports from six other cities tell of plans for strikes on unspecified dates. The East German Ministry of Interior reportedly expects a new uprising and has prepared detailed plans for strict countermeasures.

Comment: American military observers in Germany report that Soviet troop units have remained on the alert in East Berlin and other cities.

Premier Grotewohl's denunciation of President Eisenhower's food offer will greatly intensify the bitterness of the workers against the Communist authorities. The possibility of a general strike is enhanced by the East German government's admission that workers have the constitutional right to strike and by RIAS broadcasts reminding East Berlin workers of this right.

25X1A

